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Message Text

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E.O. 11652:N/A
TAGS: EFIN, UK
SUBJECT: UK GOVERNMENT PROPOSED TAKEOVER, REORGANIZATION
AND RATIONALIZATION OF BRITISH LEYLAND

REF: (A) LONDON 6285; (B) LONDON 6259; (C) LONDON 2206;
(D) A-513 OF JUNE 5, 1974

BEGIN SUMMARY: A REPORT BY A SPECIAL GOVERNMENT COMMITTEE
RECOMMENDS THAT BRITISH LEYLAND (LARGEST OF 4 UK AUTO
MANUFACTURERS AND THE ONLY MAJOR ONE NOT A US SUBSIDIARY)
RECEIVE LARGE INJECTIONS OF GOVERNMENT CAPITAL OVER THE
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NEXT 3 YEARS, BE REORGANIZED AND RATIONALIZED. THE REPORT

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SETS OUT 4 BROAD OBJECTIVES FOR BRITISH LEYLAND: (1) THE INTRODUCTION OF A NEW AND RATIONALIZED MODEL RANGE; (2) MODERNIZATION AND RATIONALIZATION OF PRODUCTION FACILITIES (3) AN ALTERED CORPORATE STRUCTURE; (4) JOINT LABOR/MANAGEMENT COUNCILS. THE COST OF THE RECOMMENDATIONS IS ESTIMATED AT OVER 2.7 BILLION POUNDS (IN NOMINAL TERMS) TO 1982 OF WHICH OVER 1.4 BILLION POUNDS MUST COME FROM EXTERNAL SOURCES. TO 1978 ABOUT 900 MILLION POUNDS IS TO COME FROM EXTERNAL SOURCES (ALMOST TOTALLY GOVERNMENT). IN REAL TERMS (1975 PRICES) THE AMOUNT NEEDED IS ABOUT 1.4 BILLION POUNDS. IT IS EXPECTED THAT THE GOVERNMENT WOULD TAKE MAJORITY PARTICIPATION. AN INJECTION OF GOVERNMENT FUNDS INTO THE COMPANY WOULD RAISE THE PUBLIC SECTOR DEFICIT AND BORROWING REQUIREMENT, AS THE EXPENDITURE WAS NOT FULLY FORESEEN IN THE PUBLIC EXPENDITURE ESTIMATES OF THE APRIL 15 BUDGET. WHETHER THE PROGRAM WILL BE EFFICACIOUS IN RESTORING COMPETITIVE STRENGTH TO THE COMPANY IS QUESTIONABLE AS ITS PROBLEMS ARE DEEP, HEAVILY RELATED TO LABOR PROBLEMS FOR WHICH THE REPORT HAS NO SOLUTION AND PERHAPS ENDEMIC IN THE PRESENT BRITISH ECONOMIC STRUCTURE. END SUMMARY

1. A GOVERNMENT APPOINTED COMMITTEE HEADED BY SIR DON RYDER, WHO WILL HEAD THE NATIONAL ENTERPRISE BOARD (NEB) WHEN SET UP UNDER THE PROPOSED INDUSTRY BILL, HAS RECOMMENDED A MASSIVE RESCUE OPERATION AND REFORMATION PROGRAM FOR BRITISH LEYLAND (BL). THE COMPANY HAS BEEN ONE OF THE MOST CONSPICUOUS VICTIMS OF THE PRESENT ACUTE WEAKENING IN DEMAND FOR AUTOS AND OF THE CASH SQUEEZE ON UK INDUSTRY. HOWEVER, BL HAS HAD MANY FINANCIAL, MANAGERIAL AND INDUSTRIAL RELATIONS PROBLEMS OVER THE PAST 7 YEARS WHICH LEFT IT WEAK AND VULNERABLE TO HARD TIMES. IN DECEMBER 1974, BRITISH LEYLAND APPLIED TO THE GOVERNMENT FOR FINANCIAL ASSISTANCE, AND THE "RYDER REPORT" IS THE OUTGROWTH OF THAT APPLICATION (SEE REF C).

2. THE RYDER REPORT STATES, INTER ALIA, THAT SINCE THE COMPANY WAS FORMED FROM SEVERAL SMALLER COMPANIES IN 1968, PROFITS HAVE BEEN "INADEQUATE AND INSUFFICIENT TO MAINTAIN THE COMPANY ON A VIABLE BASIS." WORSE, NEARLY ALL PROFIT
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WAS DISTRIBUTED AS DIVIDENDS, AND LITTLE WAS RETAINED FOR REFURBISHING ADMITTEDLY OLD, OUTWORN, AND INEFFICIENT PLANT AND EQUIPMENT. THE COMPANY ALSO RAN DOWN WORKING CAPITAL TO LOW LEVELS. THE REPORT OPINES THAT THE BL CORPORATE STRUCTURE MUST BE RATIONALIZED, CUTTING DOWN ADMINISTRATIVE AND CORPORATE STAFF IN THE VARIOUS COMPONENTS OF THE COMPANY. THE RYDER COMMITTEE ALSO RECOMMENDS THAT THE MANY SCATTERED BL PLANTS BE RATIONALIZED. AT PRESENT,

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THE REPORT STATES, THERE IS TOO MUCH MOVEMENT OF PARTS AND SUB-ASSEMBLIES BETWEEN DIFFERENT LOCATIONS. IMPROVEMENT OF PLANT LAYOUT IS ALSO NECESSARY TO CUT COSTS.

3. THE COMPANY SHOULD CONTINUE TO PRODUCE A FULL RANGE OF AUTOS, BUSES, AND TRUCKS ACCORDING TO THE REPORT. THIS INCLUDES REMAINING IN THE SMALL-LIGHT CAR MARKET WITH THE "MINI." HOWEVER, SOME RATIONALIZATION (I.E. AMALGAMATION) OF THE MIDDLE-PRICED MODELS WHICH PROLIFERATE IN THE COMPANY IS SUGGESTED.

4. INDUSTRIAL RELATIONS HAS TROUBLED BL, AS OTHER UK AUTO

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PRODUCERS, FOR SEVERAL YEARS. IN THE COMPANY FINANCIAL YEAR (ENDING SEPTEMBER) 1973/74, BL LOST 9.6 MILLION MAN-HOURS THROUGH INTERNAL INDUSTRIAL DISPUTES (AND 14.3 MILLION AS A RESULT OF INDUSTRIAL DISPUTES IN OTHER INDUSTRIES). OVER THE LAST 5 FINANCIAL YEARS, AN AVERAGE OF 8 MILLION MAN-HOURS HAVE BEEN LOST FROM INTERNAL DISPUTES ALONE WHILE LOSSES FROM EXTERNAL DISPUTES AVERAGE OVER 5 MILLION HOURS, BUT ONLY 3 MILLION IF 1973/74 IS EXCLUDED. (THE COMPANY HAS 170,000 EMPLOYEES.) AMONG OTHER PROBLEMS THE NUMBER OF BARGAINING UNITS IN THE LARGE COMPANY WITH NUMEROUS SUB-DIVISIONS, IS CONSIDERABLE. THE COMPANY HAS CONTINUALLY BEEN SLOWED DOWN BY STRIKES IN ONE OR ANOTHER LIMITED OFFICIAL USE

BARGAINING UNIT. THE RYDER REPORT POINTS OUT THESE PROBLEMS, BUT HAS NO SPECIFIC SUGGESTIONS TO OFFER FOR THEIR SOLUTION OTHER THAN THE FORMATION OF WORKER/MANAGEMENT COUNCILS. "THE MOST CRUCIAL FACTOR IN IMPROVING INDUSTRIAL RELATIONS AT BRITISH LEYLAND," THE REPORT STATES, "AND IN CREATING THE CONDITIONS IN WHICH PRODUCTIVITY CAN BE INCREASED IS, HOWEVER, THAT THERE SHOULD BE SOME PROGRESS TOWARDS INDUSTRIAL DEMOCRACY." WHILE ADMITTING THAT THE COMPANY IS OVERMANNED, NO SPECIFIC TARGETS FOR MANPOWER REDUCTION ARE SUGGESTED, AND THE REPORT STATES VAGUELY THAT THE IMPROVEMENT IN PRODUCTIVITY WILL EVENTUALLY MEAN A GRADUAL REDUCTION IN THE NUMBER OF WORKERS REQUIRED TO PRODUCE A GIVEN NUMBER OF VEHICLES.

5. THE FINANCIAL NEEDS OF THE COMPANY ARE SUBSTANTIAL, ACCORDING TO THE REPORT. OVERALL, ABOUT 1.4 BILLION POUNDS (1975 PRICES) IN FUNDS ARE NEEDED BETWEEN 1975 AND 1982. OF THIS, 1.2 BILLION POUNDS IS FOR CAPITAL EXPENDITURE AND OVER 200 MILLION POUNDS FOR WORKING CAPITAL. IN NOMINAL TERMS (WE UNDERSTAND THAT AN AVERAGE INFLATION RATE OF 12-1/2 PERCENT WAS USED IN THESE CALCULATIONS), THE FINANCIAL NEEDS ARE ESTIMATED TO BE ABOUT 2.75 BILLION POUNDS. THE REPORT ESTIMATES THAT ABOUT 1.3 TO 1.4 BILLION (NOMINAL TERMS) MUST COME FROM EXTERNAL SOURCES.

6. IN THE PERIOD 1975-78, 900 MILLION POUNDS WILL BE NEEDED. THE REPORT SUGGESTS THAT 500 MILLION POUNDS SHOULD COME IN THE FORM OF A GOVERNMENT LOAN TO THE COMPANY. ANOTHER 260 MILLION POUNDS IS SUGGESTED IN THE FORM OF EQUITY CAPITAL, THE GOVERNMENT UNDERWRITING A RIGHTS ISSUE TO EXISTING SHAREHOLDERS OF 200 MILLION POUNDS AFTER OFFERING 10 PENCE PER SHARE FOR THE 60 MILLION POUNDS OF EXISTING SHARES (THEY TRADED LAST AT 6-1/4 PENCE). SINCE THE COMMITTEE BELIEVES THAT RELATIVELY FEW BL SHAREHOLDERS

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WILL TAKE UP THE RIGHTS ISSUE AND MOST WILL SELL EXISTING HOLDINGS (THE COMPANY IS NOT COMMERCIALLY VIABLE), THE GOVERNMENT WILL END UP WITH MOST OF THE BL SHARES. THE REMAINING 200 MILLION POUNDS SHOULD COME FROM THE EXISTING BL OVERDRAFT FACILITY AT UK BANKS.

7. THE AUTHORITY UNDER WHICH BOTH THE LOAN AND EQUITY CAP-
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ITAL WILL BE PROVIDED IS STILL UNDER DISPUTE WITHIN THE GOVERNMENT ACCORDING TO AN INDUSTRY DEPARTMENT SOURCE. THE LOAN SHOULD NORMALLY BE GRANTED UNDER SECTION 8 OF THE EXISTING INDUSTRY LAW WHICH PROVIDES FOR BAILING OUT COMPANIES BY THE GOVERNMENT IF IN THE NATIONAL INTEREST. HOWEVER, THE SUM INVOLVED WOULD EXHAUST SECTION 8 FUNDS FOR THE PRESENT FISCAL YEAR. SINCE THE NEB, OF THE PROPOSED NEW INDUSTRY BILL, HAS A LIMIT OF 1 BILLION POUNDS (700 MILLION POUNDS OF WHICH WILL BE THEIR INITIAL WORKING CAPITAL) PROVISION OF THE LOAN AND THE EQUITY FUNDS BY THE NEB -- ONCE IT COMES INTO EXISTENCE -- WOULD RENDER IT ALMOST NON-OPERATIONAL IN ITS FIRST YEAR. OUR SOURCE EXPECTS A DECISION TO BE MADE THIS WEEK.

8. NEITHER THE LOAN NOR THE EQUITY INJECTION WAS PROVIDED FOR IN THE PUBLIC EXPENDITURE ESTIMATES PUBLISHED WITH THE BUDGET ON APRIL 15. HEALEY TOLD PARLIAMENT MAY 1 THAT PART OF THE COST HAD BEEN FACTORED INTO BUDGET CONTINGENCY CATEGORY. THUS THE RYDER REPORT WILL INCREASE THE PUBLIC BORROWING REQUIREMENT THIS FISCAL YEAR AND THE NEXT TWO IF IT IS IMPLEMENTED. BY HOW MUCH IS NOT CERTAIN, AS THE LOAN AND THE EQUITY CAPITAL MAY NOT ALL BE PROVIDED THIS FISCAL YEAR.

9. BEGIN LIMITED OFFICIAL USE.
COMMENT. APART FROM ITS SPECIFIC IMPACT ON PUBLIC SECTOR BORROWING THIS YEAR (EXACERBATING THE INFLATIONARY PRESSURES IN THE ECONOMY - SEE REF B), THE RYDER REPORT IS INDICATIVE OF SOME OF THE BASIC CONTRADICTIONS AND PARADOXES OF THE UK ECONOMY. THE REPORT - CORRECTLY IN OUR VIEW - PINPOINTS THE MAIN PROBLEMS OF BL AS LACK OF ADE-

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QUATE INVESTMENT, POOR INDUSTRIAL RELATIONS, AND A DIVERSE SCATTERED, AND IRRATIONAL CORPORATE STRUCTURE AND PRODUCTION PATTERN. BUT THE PROPOSED ANSWERS TO THESE PROBLEMS ARE, ON THE ONE HAND, STATE INTERVENTION AND SUPPORT, AND ON THE OTHER, A RESORT TO UNTRIED INDUSTRIAL DEMOCRACY TO SOLVE THE LABOR PROBLEM. AS IN THE PAST, AND JUDGED BY ITS REACTION TO THE PRESENT DIFFICULTIES OF OTHER COMPANIES, THE GOVERNMENT SEEMS MOTIVATED TO ACT AS MUCH BY A DESIRE TO PRESERVE JOBS AS BY A REAL DESIRE TO REFORM THE COMPANY AND MAKE IT MORE EFFICIENT. IN THE END, NO TARGETS ARE SET FOR RAISING PRODUCTIVITY OR FOR SHEDDING THE ALREADY TOO LARGE LABOR FORCE. THE PARADOXICAL ANSWER
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IS SEEN TO LIE IN CHANNELING GOVERNMENT FUNDS INTO INVESTMENT FOR MODERNIZATION WHICH WHEN IN PLACE COULD PUT THE

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JOBS OF EVEN MORE BL WORKERS AT RISK. LEN MURRAY, TUC LEADER, SAID IN A RECENT CONVERSATION THAT HE THOUGHT THE RYDER REPORT APPROACH TO OVERMANNING -- BY ATTRITION ACCORDING TO MURRAY -- IS THE CORRECT ONE.

10. THE CONCEPT OF ECONOMIC PLANNING AND GOVERNMENT FINANCIAL SUPPORT ARE APPEALING IF PUT IN THE BRITISH ECONOMIC CONTEXT. THERE IS LITTLE DOUBT THAT LOW INVESTMENT IS A MAJOR CAUSE OF UK ECONOMIC PROBLEMS (SEE REF D). THIS RESULTS IN LARGE PART FROM A FALLING RATE OF PROFIT AND RETURN TO CAPITAL FOR THE LAST TEN YEARS. GOVERNMENT FUNDED INVESTMENT FOR SOME COMPANIES, AND GUIDANCE FOR OTHERS MAY APPEAR TO MANY AS A REASONABLE ANSWER TO THIS PROBLEM. BUT OTHER BASIC WEAKNESSES -- WHICH PERHAPS ARE ALSO DETERMINANTS OF THE LOW RATE OF INVESTMENT ARE NOT FACED. FOREMOST AMONG THESE IS A RELUCTANCE TO FACE LABOR UNIONS OVER CHAOTIC INDUSTRIAL RELATIONS AND OVER THE BASIC NEED TO INCREASE PRODUCTIVITY.

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